Financial Section


General Purpose Financial Statements

Combining and Individual Fund Statements and Schedules


1999

Government of the District of Columbia
Office of the Chief Financial Officer

GENERAL PURPOSE FINANCIAL STATEMENTS

The general purpose financial statements provide a summary overview of the financial position of all fund types, account groups and component units; and of the operating results of all fund types and component units.

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Independent Auditors' Report

To the Mayor and Council of the District of Columbia

Inspector General of the District of Columbia

District of Columbia Financial Responsibility
And Management Assistance Authority

We have audited the general purpose financial statements of the District of Columbia (the District), as of and for the year ended September 30, 1999, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the District of Columbia Retirement Board, the Pension Trust Fund within the Fiduciary Fund Type, and the District of Columbia Water and Sewer Authority, were audited by other auditors in accordance with generally accepted auditing standards, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, Public Law 104-8 created the District of Columbia Financial Responsibility and Management Assistance Authority (the Authority), defined a "control period" and deemed a control period to exist. The District is still in a control period. Also, the National Capital Revitalization and Self Government Improvement Act of 1997 made significant changes to the District's Charter, its structure, and the services it provides with the objective of improving the District's financial condition. The ongoing financial and operational impact of this legislation is uncertain and the District may continue to face significant unresolved funding issues, the outcome of which may result in additional changes to the District's structure and level of services.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District of Columbia, as of September 30, 1999, and the results of its operations, changes in plan net assets of the pension trust funds, and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated April 24, 2000 on our consideration of the District's compliance with certain provisions of laws, regulations, contracts and grants, and the District's internal control over financial reporting. Our reports disclosed that previously reported potential material noncompliance with certain laws, regulations, contracts and grants, and the ineffective internal controls over financial reporting, persists and that many of the problems reported in prior years have remained uncorrected. As a result, potential material noncompliance exists in regard to:

- The District of Columbia Procurement Practices Act of 1985
- The Anti-deficiency and Home Rule Acts
- The Quick Payment Provision of the District of Columbia Code
- The Financial Institutions Deposit and Investment Amendment Act of 1997
- Lawsuits and court orders
- Federal grant requirements
- The District of Columbia Financial Responsibility and Management Assistance Authority Act

Similarly, our report on internal controls noted material weaknesses in controls over financial reporting in the following areas:

- Electronic data processing
- Business and individual tax information system processing
- Bank reconciliation controls
- Controls over transactions involving the Authority
- Lack of timely and accurate entries into its financial management system
- Overall financial management at several District agencies
- Monitoring of the Department of Housing and Community Development loan activity
- Other reconciliation and management items

Our findings regarding the above areas are detailed in our separate reports on compliance with laws and regulations and internal controls. However, District officials need to place special emphasis and priority focus on restructuring certain aspects of the Office of the Chief Financial Officer. We believe a priority effort should be made to centralize all aspects of the accounting function across the government until a larger cadre of personnel are properly trained to support a more decentralized accounting structure with inputs from each agency. For the identified key people participating in the centralized structure, short-term intensified and longer term sustained required training should be provided on how to use the new financial management system. Also, an assessment and implementation of needed modifications to the system design should be done to optimize its benefits. In addition, assessments should be made of key positions in the Office of the Chief Financial Officer, at all levels, on their ability to perform the required work in a qualitative and timely manner.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The information in the accompanying schedules identified as Exhibits A-1 through G-6 in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the District of Columbia. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

We did not audit the data included in the introductory section and the statistical section of the report and, accordingly, express no opinion thereon.

Mitchell & Titus, LLP

April 24, 2000
Washington, DC

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Exhibit 1

DISTRICT OF COLUMBIA
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS

September 30, 1999
($000s)

	Governmental Fund Types			Proprietary Fund Types	Fiduciary Fund Type	Account Groups		
	General	Special Revenue Financial Responsibility Authority	Capital Projects	Enterprise	Trust and Agency (Note 6)	General Fixed Assets	General Long Term Liabilities	Component Units (Note 7)
ASSETS AND OTHER DEBITS								
Current Assets:								
Cash and investments (note 2)	$ 480,027	3,959	6,420	10,637	2,744,537	-	-	1,177,818
Receivables (net of allowances for uncollectibles):								
Taxes	224,028	-	-	-	-	-	-	-
Accounts	183,584	-	15,103	2,958	17,537	-	-	140,304
Intergovernmental	348,501	-	29,124	-	170	-	-	29,103
Due from primary government /component units (note 3)	44,236	-	-	-	-	-	-	49,250
Interfund (note 3)	195,395	-	469,426	-	8,173	-	-	-
Inventories	16,304	-	-	467	-	-	-	12,252
Properties held for resale	-	3,100	-	-	-		-	-
Other current assets	6,122	6	-	23	17,412	-	-	33,277
Total current Assets	1,498,197	7,065	520,073	14,085	2,787,829	-	-	1,442,004
Long Term Assets:								
Receivables (net of allowances for uncollectibles):								
Loans	19,369	-	-	-	-	-	-	208,495
Intergovernmental	-	-	-	-	-	-	-	36,674
Interfund	-	546	-	-	-	-	-	-
Deferred charges	-	-	-	-	-	-	-	48,975
Other long term assets	-	-	-	80,637	-	-	-	-
Total long term assets	19,369	546	-	80,637	-	-	-	294,144
Fixed Assets (Note 4):								
Property and equipment	-	-	-	3,154	-	5,995,623	-	2,288,639
Accumulated depreciation	-	-	-	(2,754)	-	(2,617,591)	-	(761,112)
Net fixed assets	-	-	-	400	-	3,378,032	-	1,527,527
Other Debits:								
Resources to be provided	-	-	-	-	-	-	3,517,918	-
Total assets and other debits	$ 1,517,566	7,611	520,073	95,122	2,787,829	3,378,032	3,517,918	3,263,675

The accompanying notes are an integral part of this statement.

Exhibit 1

	Governmental Fund Types			Proprietary Fund Types	Fiduciary Fund Type	Account Groups		
		Special Revenue						
	General	Financial Responsibility Authority	Capital Projects	Enterprise	Trust and Agency (Note 6)	General Fixed Assets	General Long Term Liabilities	Component Units (Note 7)
LIABILITIES, EQUITY AND OTHER CREDITS								
Current Liabilities:								
Payables:								
Accounts	$ 403,599	358	84,001	1,939	163,168	-	-	69,276
Compensation	161,378	282	-	577	-	-	-	27,603
Due to primary government /component unit (note 3)	43,360	-	-	-	5,890	-	-	44,236
Interfund (note 3)	590	5,446	-	-	667,504	-	-	-
Accrued liabilities	375,995	-	-	8,572	-	-	-	53,103
Deferred revenue	277,301	555	48,541	151	-	-	-	70,840
Current maturities (note 5)	35,000	-	-	-	-	-	-	64,306
Other current liabilties	21,424	-	-	18	17,530	-	-	17,216
Total current liabilities	1,318,647	6,641	132,542	11,257	854,092	-	-	346,580
Long Term Liabilities (Note 5):								
Long term debt:								
Intergovernmental notes payable	-	-	-	-	-	-	-	15,242
General obligation bonds payable	-	-	-	-	-	-	3,098,582	599,468
Loans payable	-	-	-	-	-	-	-	816,147
Other long term liabilities	-	-	-	80,637	-	-	419,336	347,060
Total long term liabilities	-	-	-	80,637	-	-	3,517,918	1,777,917
Total liabilities	**1,318,647**	**6,641**	**132,542**	**91,894**	**854,092**	**-**	**3,517,918**	**2,124,497**
Equity and other credits:								
Other credits:								
Resources invested (note 4)	-	-	-	-	-	3,378,032	-	-
Contributed capital (note 4)	-	-	-	-	-	-	-	700,256
Retained earnings	-	-	-	3,228	-	-	-	438,922
Fund balances:								
Reserved for:								
Long term assets	19,369	-	-	-	-	-	-	-
Encumbrances	-	-	333,008	-	-	-	-	-
Capital project expenditures			54,523					
Future benefits	-	-		-	1,933,737	-	-	-
Unreserved	179,550	970	-	-	-	-	-	-
Total equity and other credits	198,919	970	387,531	3,228	1,933,737	3,378,032	-	1,139,178
Total liabilities, equity and other credits	$ 1,517,566	7,611	520,073	95,122	2,787,829	3,378,032	3,517,918	3,263,675

Exhibit 2

DISTRICT OF COLUMBIA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

Year Ended September 30, 1999
($000s)

	Governmental Fund Types			Fiduciary Fund Type
		Special Revenue		
	General	Financial Responsibility Authority	Capital Projects	Expendable Trust
Revenues:				
Taxes	$ 2,892,562	-	-	90,384
Licenses and permits	48,247	-	-	-
Fines and forfeits	47,794	-	-	-
Charges for services	263,565	-	-	-
Benefit contributions	-	-	-	11,523
Miscellaneous	171,638	209	49,049	12,412
Intergovernmental (note 8)	1,260,249	-	164,927	-
Total revenues	4,684,055	209	213,976	114,319
Expenditures:				
Current:				
Governmental direction and support	329,788	7,221	-	-
Economic development and regulation	161,824	-	-	-
Public safety and justice	759,526	-	-	-
Public education system	737,781	-	-	-
Human support services	1,283,979	-	-	77,368
Public works	264,334	-	-	-
Receiverships	397,435	-	-	-
Employee benefits addition (deduction)	102,097	-	-	-
Capital outlay	-	-	357,075	-
Debt service:				
Principal	261,534	-	-	-
Interest and fiscal charges	198,500	-	-	-
Total expenditures	4,496,798	7,221	357,075	77,368
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	187,257	(7,012)	(143,099)	36,951
Other Financing Sources (Uses):				
Proceeds (payments) of:				
General obligation bonds	708,612	-	236,876	-
Capital leases			13,839	
Payment to refunded bond escrow agent:				
Refunded debt	(658,192)	-	-	-
Refunding charges	(16,121)	-	-	-
Sales of fixed assets	-	-	11,711	-
Transfers:				
Interfund transfers in	64,225	7,012	44,214	-
Interfund transfers out	(51,226)	-	-	-
Component Units	(148,128)	-	-	-
Total other financing net sources (uses)	(100,830)	7,012	306,640	-
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	**86,427**	-	**163,541**	**36,951**
Fund Balances at October 1	**112,492**	**970**	**223,990**	**183,711**
Fund Balances at September 30	**$ 198,919**	**970**	**387,531**	**220,662**

The accompanying notes are an integral part of this statement.

Exhibit 3

STATEMENT OF REVENUES, EXPENDITURES AND RECONCILIATION OF BUDGETARY BASIS WITH GAAP BASIS
GENERAL FUND

Year Ended September 30, 1999
($000s)

	Budget Original	Budget Revisions	Budget Revised	Actual	Variance - Favorable (Unfavorable)
Revenues and Sources:					
Taxes:					
Property taxes	$ 674,500	9,000	683,500	679,550	(3,950)
Sales and use taxes	565,000	84,700	649,700	645,949	(3,751)
Income and franchise taxes	1,031,900	118,500	1,150,400	1,169,751	19,351
Other taxes	330,400	10,700	341,100	327,679	(13,421)
Total taxes	2,601,800	222,900	2,824,700	2,822,929	(1,771)
Licenses and permits	46,076	1,727	47,803	46,534	(1,269)
Fines and forfeits	69,450	(12,679)	56,771	47,688	(9,083)
Charges for services	38,745	(4,882)	33,863	31,055	(2,808)
Miscellaneous	62,351	21,958	84,309	86,740	2,431
Private & Other	314,660	6,826	321,486	282,732	(38,754)
Intergovernmental	1,226,026	73,554	1,299,580	1,260,397	(39,183)
General obligation bonds	-	-	-	708,612	708,612
Surplus property sales	-	-	-	-	-
Transfers	69,000	-	69,000	64,225	(4,775)
Revenue initiatives	20,000	-	20,000	-	(20,000)
Total revenues and sources	4,448,108	309,404	4,757,512	5,350,912	593,400
Expenditures and Uses:					
Governmental direction and support	164,144	109,136	273,280	270,346	2,934
Economic development and regulation	159,039	7,511	166,550	147,220	19,330
Public safety and justice	755,786	(19,604)	736,182	718,621	17,561
Public education system	774,877	46,574	821,451	801,064	20,387
Human support services	1,514,751	(60,250)	1,454,501	1,434,739	19,762
Public works	266,912	12,419	279,331	264,819	14,512
Receiverships	318,979	21,652	340,631	355,382	(14,751)
Washington Convention Center Payment	5,400	-	5,400	-	5,400
Refunded bonds, interest, and fiscal charges	-	-	-	707,530	(707,530)
Repay bonds and interest	382,170	(10,503)	371,667	363,194	8,473
Repay deficit bonds and interest	38,453	-	38,453	38,453	-
Interest on short term borrowing	11,000	(4,500)	6,500	6,109	391
Certificates of participation	7,926	3	7,929	7,929	-
Human resources development	6,674	466	7,140	5,951	1,189
Financial Responsibility Authority	7,840	(2,744)	5,096	5,096	-
Total expenditures and net uses	4,413,951	100,160	4,514,111	5,126,453	(612,342)
Subtotal	34,157	209,244	243,401	224,459	(18,942)
PL 105-277 Productivity Savings	10,000	-	10,000	-	(10,000)
EXCESS (DEFICIENCY) OF REVENUES AND SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES -- BUDGETARY BASIS	**$ 44,157**	**209,244**	**253,401**	**224,459**	**(28,942)**
Reconcile Budgetary to GAAP Basis:					
Financial Responsibility Authority				(1,916)	
Convention Center taxes				(51,145)	
Claims and judgments accrual				(45,552)	
Accrued future debt payment				(35,000)	
Uncollectible receivable for mental health receiver				(12,117)	
Grant disallowance accrual				(9,646)	
Undistributed cost				(8,538)	
Inventory decrease				(4,638)	
Medicaid accrual, net of revenue				(4,085)	
Net revenues from activities classified as other				28,980	
Accrued interest				9,830	
Long term receivable reserve				(1,654)	
Other accruals, net				(2,551)	
EXCESS OF REVENUES AND SOURCES OVER EXPENDITURES AND OTHER USES -- GAAP BASIS				**$ 86,427**	

Exhibit 4

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS

Year Ended September 30, 1999

($000s)

		Proprietary Fund Types Enterprise	Component Units (Note 7)
Operating Revenues:			
Charges for services	$	207,091	413,784
Miscellaneous		-	11,569
Subtotal		207,091	425,353
Deductions from charges for services		(121,628)	-
Total operating revenues		85,463	425,353
Operating Expenses:			
Personal services		4,829	231,037
Contractual services		16,388	95,523
Supplies		60	25,981
Occupancy		1,526	32,188
Depreciation		233	41,060
Miscellaneous		544	67,072
Total operating expenses		23,580	492,861
OPERATING INCOME (LOSS)		61,883	(67,508)
Nonoperating Revenues (Expenses):			
Intergovernmental (note 9)		-	31,057
Interest revenue		2,256	59,623
Interest and fiscal charges		-	(53,696)
Miscellaneous		162	(7,800)
Total nonoperating revenues (expenses)		2,418	29,184
INCOME (LOSS) BEFORE TRANSFERS		64,301	(38,324)
Transfers:			
Interfund transfers out		(64,225)	-
Componenet units' transfers in		-	148,135
Total transfers in (out)		(64,225)	148,135
NET INCOME		**76**	**109,811**
Depreciation closed to Contributed Capital		-	8,630
INCREASE IN RETAINED EARNINGS		**76**	**118,441**
Retained Earnings at October 1		**3,152**	**320,481**
Retained Earnings at September 30	**$**	**3,228**	**438,922**

The accompanying notes are an integral part of this statement.

Exhibit 5

COMBINED STATEMENT OF CASH FLOWS

ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS

Year Ended September 30, 1999
($000s)

		Proprietary Fund Types	
		Enterprise Funds	Component Units
Operating Activities:			
Cash receipts from customers	$	205,796	362,786
Cash receipts from loans and interest		-	25,253
Other cash receipts		162	27,720
Cash payments to vendors		(19,502)	(140,904)
Cash payments to employees		(4,838)	(233,282)
Other cash payments, including prizes		(122,831)	-
Net cash provided		58,787	41,573
Capital and Related Financing Activities:			
Acquisitions of fixed assets			
Lottery Board		(106)	-
Public Benefit Corporation		-	-
Water and Sewer		-	(25,725)
Convention Center		-	(109,570)
Sports Commission		-	(257)
Housing Finance		-	(697)
University		-	(1,184)
Proceeds of long term bonds		-	15,242
Payments of long term debt			
Water and Sewer		-	(18,646)
Payments of interest and charges			
Water and Sewer		-	(17,908)
Convention Center		-	589
Contributions of capital			
Water and Sewer		-	9,020
University		-	840
Net cash provided	$	(106)	(149,340)
Noncapital Financing Activities:			
Operating grant receipts	$	-	30,453
Interfund transfers out		(64,225)	-
Intragovernmental transfers in		-	148,135
Proceeds of loans payable		-	138,650
Payments of loans payable		-	(139,344)
Payments of interest and charges		-	(36,048)
Other long term payments		-	(15,497)

Exhibit 5

	Proprietary Fund Types Enterprise Funds	Component Units
Payments to other funds		
Public Benefit Corporation	-	154
Water and Sewer	-	7,525
Convention Center	-	(1,123)
Sports Commission	-	-
Housing Finance	-	(75)
University	-	-
Net cash provided (used)	(64,225)	132,830
Investing Activities:		
Receipts of interest and dividends	2,256	59,522
Net cash provided	2,256	59,522
INCREASE (DECREASE) IN CASH	**(3,288)**	**84,585**
Cash and Investments at October 1	**13,925**	**1,093,233**
Cash and Investments at September 30	**$ 10,637**	**1,177,818**
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	$ 61,883	(67,508)
Depreciation	233	41,060
Miscellaneous nonoperating revenues	162	(7,800)
Loss on disposition of fixed assets	-	7,050
Decrease (increase) in assets:		
Receivables	(1,315)	(8,028)
Allowance for uncollectibles	-	(5,545)
Inventories	(12)	2,566
Other current assets	(18)	44,874
Loans receivable	-	14,305
Increase (decrease) in liabilities:	-	-
Payables	(939)	17,784
Accrued liabilities	(1,203)	(14,232)
Deferred revenue	20	1,709
Other current liabilities	(24)	15,338
Net Cash Provided (Used)	$ 58,787	41,573
Noncash contributions of capital	$ -	-

The accompanying notes are an integral part of this statement.

Exhibit 6

COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS

PENSION TRUST FUNDS

Year Ended September 30, 1999
($000s)

	Fiduciary Fund Types Pension Trust
Additions:	
Benefit contributions:	
Interfund	$ 53,700
Employees	37,274
Investing:	
Investment income	56,338
Net appreciation in fair value of investments	189,990
Less - investment expenses	(11,514)
Total additions	325,788
Deductions:	
Benefit payments:	
Benefits	2,300
Total deductions	2,300
NET INCREASE	**323,488**
Net assets held in trust for pension benefits:	
October 1	**1,389,587**
September 30	**$ 1,713,075**

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999

(Amounts expressed in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Article I, section 8, clause 17 of the United States Constitution adopted September 17, 1787 states, "The Congress shall have the power...to exercise exclusive legislation in all cases whatsoever, over such district (not exceeding ten miles square) as may, by cession of particular states, and the acceptance of Congress, become the seat of the government of the United States..." The District of Columbia (District) was created March 30, 1791 and became the nation's capital December 1, 1800. Congress granted the District a Charter, which went into effect on January 2, 1975 (the District of Columbia Self-Government and Governmental Reorganization Act, Public Law 93-198, approved December 24, 1973). The District is a municipal corporation, which operates under an elected Mayor-Council form of government. An act of the Council, other than a budget request act, becomes a law unless Congress and the President disapprove it after it is adopted. Citizens of the District have the right to vote for President and Vice President of the United States but not for members of Congress. The District has an elected nonvoting delegate to the United States House of Representatives. The President with the advice and consent of the Senate appoints the judges of the District courts. The United States Attorney prosecutes felonies committed in the District and the United States Marshall carries out court orders.

The District of Columbia Financial Responsibility and Management Assistance Authority (Financial Responsibility Authority) was created on April 17, 1995 by Public Law 104-8. The President appoints the five members of the Financial Responsibility Authority. The Financial Responsibility Authority has broad powers during a control year to review and approve the budget, legislation, contracts (including collective bargaining agreements) and borrowing of the District; and to borrow funds on behalf of the District.

A. CONTROL YEAR AND PERIOD

A control year is a fiscal year that commences during a control period. A control period commences upon the occurrence of a borrowing from the U.S. Treasury pursuant to D.C. Code 47-3401; a cash deficit estimated to last beyond the current fiscal year or the first half of the subsequent fiscal year; or failure to pay debt service, payroll, employee benefits, or interstate compact payments. A control period ends when the Financial Responsibility Authority determines, after consultation with the District Inspector General, that the District has adequate and reasonable access to short term and long-term credit markets, and that for four consecutive fiscal years the District has not operated at a deficit. The Financial Responsibility Authority suspends all activities upon the later of (1) 12 months after all borrowings by the Financial Responsibility Authority for the use of the District, and by the District from the U.S. Treasury pursuant to D.C. Code 47-3401 have been discharged, or (2) the expiration of the control year in which a control period ends and in which (1) above occurs. Between the end of a control year and suspension of activities, the Financial Responsibility Authority reviews and comments upon the budget, monitors financial status, and satisfies its responsibilities for debt it issued.

The District entered a control period when the Financial Responsibility Authority was activated in April 1995. Fiscal year 1999 was a control year. Special conditions of a control period and year are described below and in the Budgeting section.

All acts passed by the Council in a control year, along with a fiscal impact statement, must be submitted to the Financial Responsibility Authority. It has seven business days after submission within which to review such legislation, a period which can be extended for an additional seven business days. The Financial Responsibility Authority may disapprove a Council act if it determines that the Council act is significantly inconsistent with the financial plan and budget. The District may not borrow funds during a control year without the prior consent of the Financial Responsibility Authority. The proceeds of the annual federal payment, borrowings by the District, and borrowings by the Financial Responsibility Authority for the use of the District are deposited into escrow accounts held by the Financial Responsibility Authority and allocated to the District in such amounts and at such times as the

Financial Responsibility Authority considers to be consistent with the financial plan and budget. The Financial Responsibility Authority has not borrowed any funds as of September 30, 1999.

The Financial Responsibility Authority may at any time submit recommendations to the District, President or Congress to ensure compliance with a financial plan and budget or otherwise promote the financial stability, responsible management, and efficient service delivery of the District. If the District determines not to adopt a recommendation that is within the power of the District, the Financial Responsibility Authority may "take such action concerning the recommendation as it deems appropriate, after consulting with the Committee on Governmental Reform and Oversight of the House of Representatives and the Committee on Governmental Affairs of the Senate" (Public Law 104-8 Sec. 207(c)(1)).

In addition, the Financial Responsibility Authority may at any time issue such orders, rules or regulations as it considers appropriate to carry out the purposes of Public Law 104-8 and the amendments made thereby, to the extent that the issuance of such an order, rule, or regulation is within the authority of the Mayor or the head of any department or agency of the District government. Any such order, rule or regulation is legally binding to the same extent as if issued by the Mayor or the head of any such department or agency, and the Financial Responsibility Authority's decision to issue such an order, rule or regulation is final and not subject to judicial review (Public Law 104-8 Sec. 204(d)).

B. FINANCIAL REPORTING ENTITY

A financial reporting entity consists of a primary government and its component units. The primary government is the District of Columbia, which consists of all the organizations that make up its legal entity. The lottery, unemployment compensation and retirement programs are not legally separate organizations and their financial data are included with the financial data of the primary government. In accordance with the amendment of Section 457 of the Internal Revenue Code, as well as the requirements of Statement Number 32 of the Governmental Accounting Standards Board (GASB), during 1998 the District amended its deferred compensation plan and no longer retains a fiduciary responsibility for the plan. Consequently, the plan is not reported in the financial data of the primary government for 1999.

Component units are legally separate organizations for which the elected officials of the District are financially accountable. The Financial Responsibility Authority is an entity of the District government with a federally appointed board and was created to provide temporary fiscal assistance to alleviate the District's fiscal distress. The District is not financially accountable for and exercises no control over the Financial Responsibility Authority. Generally accepted accounting principles (GAAP) require the presentation of the Financial Responsibility Authority as a blended component unit of the primary government because it was created for a specific purpose, to minimize the financial difficulties of the General Fund. The Public Benefit Corporation, Water and Sewer Authority, Convention Center, Sports Commission, Housing Finance Agency and the University of the District of Columbia are discretely presented component units, reported separately from the primary government, and are proprietary fund types. Accountability exists because the Mayor, with the advice and consent of the Council, appoints the governing bodies of all the component units, except for the Public Benefit Corporation and Water and Sewer Authority. Accountability exists for the Public Benefit Corporation and the Water and Sewer Authority because the Mayor, with the consent of the Council, appoints a majority of the board and only those board members may vote on retail water and sewer rates. In addition, the District has an obligation to provide financial support to the Public Benefit Corporation, Housing Finance Agency and the University of the District of Columbia. The District must approve certain financial transactions of the Convention Center and Sports Commission, and certain tax revenues are dedicated to these organizations. Condensed financial statements for each of the discretely presented component units and sources for a complete set of financial statements are presented in Note 7.

The District of Columbia Housing Authority (the Housing Authority) is a legally separate organization that provides and maintains quality public housing in the District. However, financial accountability does not exist because the District does not impose its will on, or have a financial benefit or burden relationship with, the Housing Authority. The Housing Authority was placed into a three-year receivership for deficiencies in performing its mission by a May 19, 1995 order of the Superior Court of the District of Columbia. A June 23, 1998 order of the Superior Court of the District of Columbia further extended the receivership through May 18, 2000. Upon the completion of the Receivership, powers shall be transferred to an independent Board required under District law to manage the affairs of the Housing Authority or its successor agency. The Board will be appointed during this transition period pursuant to the requirements set forth by District law and will not be appointed by the Receiver. Transactions between the Housing Authority and the District are presented in Note 7.

The Washington Metropolitan Area Transit Authority (the Transit Authority) is a tax-exempt joint venture created in 1967 by compact among Maryland, Virginia and the District. The Transit Authority is responsible for the construction, financing and operation of mass transit facilities in the counties of Montgomery and Prince George's in Maryland, the counties of Arlington and Fairfax and the cities of Alexandria, Fairfax and Falls Church in Virginia, and the District. The Transit Authority is a public corporation, which is governed by a board consisting of six directors, two each, representing Maryland, Virginia and the District. The Council appoints the District's directors. The Transit Authority does not have any stockholders, has no taxing power and is not subject to regulatory approval of its fare schedules. The participants are required to provide a stable and reliable source of revenues to finance their ongoing financial responsibility to the Transit Authority (D.C. Code 1-2465). The revenues allocated by the District to the Transit Authority are motor vehicle registration fees; traffic fines; motor vehicle excise taxes; parking meter fees; sales taxes on parking lots, hotel rooms, rental vehicles, restaurant food and drinks; motor fuel taxes; and federal grants for operating expenses of the transit authority. Transactions between the Transit Authority and the District are discussed in Note 7.

C. BASIS OF PRESENTATION

The District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities.

A fund is a separate entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in governmental funds because they are not current financial resources and liabilities.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental funds are used to account for all of the District's general activities. The General Fund is used to account for all activities of the general government not accounted for in some other fund, including the collection and disbursement of earmarked monies and the servicing of general long-term debt. The special revenue fund is used to account for the operations of the Financial Responsibility Authority. The Capital Projects Fund is used to account for the purchase or construction of fixed assets financed by operating transfers, capital grants or general long-term debt.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. The enterprise fund is used to report the operations of the Lottery and Games Fund.

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments or on behalf of other funds within the District. When these assets are held under the terms of a formal trust agreement, either a pension trust fund or an expendable trust fund is used. The term "expendable" refers to the fact that the District is not under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the District holds on behalf of others as their agent, including amounts held in escrow by the Financial Responsibility Authority for the benefit of the District. The District's fiduciary funds include the following:

- *Unemployment Compensation Trust Fund,* established to account for funds used to pay benefits to unemployed former employees of the District and Federal governments and private employers of the District
- *Pension Trust Funds,* used to account for resources used for retirement annuity payments at appropriate amounts and times for police officers, firefighters and public school teachers of the District
- *Agency Funds,* used to account for assets held in the custody of the District or the Financial Responsibility Authority, as an agent for individuals, private organizations, other governments or other funds

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds, pension trust funds, and discretely presented component units are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity of proprietary fund types is segregated into contributed capital and retained earnings components. Operating statements of these funds present increases (revenues) and decreases (expenses) in retained earnings. Operating statements of pension trust funds present additions and deductions in plan net assets.

All governmental fund types, expendable trust funds and agency funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is, when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes are considered as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal on general long-term debt is recorded as a fund liability when due. Current interest on general long-term debt is recorded as a fund liability when the amount has been incurred through the passage of time.

Those revenues susceptible to accrual are property taxes, sales and use taxes, income and franchise taxes, gross receipts taxes, interest and grants, and other reimbursable revenues. Property taxes are recognized as revenue in the tax year for which they are levied, provided they are available. Sales and use taxes are recognized as revenue when the sales or uses take place. Income taxes are recognized as revenue when the income is earned by the taxpayer, less an accrual for probable refunds. Franchise and gross receipts taxes are recognized as revenue when the related income is earned by the taxpayer. Interest is recognized as revenue through the passage of time. Licenses and permits, fines and forfeits, charges for services, and other taxes generally are not susceptible to accrual because they are not measurable until received in cash.

Proprietary fund types and pension trust funds utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The pension trust funds recognize revenues from participants in the period in which contributions are due, revenues from District contributions when due and a formal commitment has been made, and expenditures for benefits and refunds when due and payable. Proprietary activities do not apply Financial Accounting Standards Board statements and interpretations issued after November 30, 1989.

The District reports deferred revenue in the accompanying balance sheet. Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when the District receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Real property taxes are levied as of October 1 on property values assessed as of the preceding January 1. The tax levy is due and collectible in two equal installments on March 31 and September 15. On these dates, the bill becomes delinquent and the District may assess penalties and interest. Real property taxes attach as an enforceable lien on property as of October 1 of the year after levy.

E. BUDGETING

The following explains the budgeting process that takes place during a control period. By February 1, the Mayor submits a budget for the next fiscal year, a project-length financial plan for the Capital Projects Fund, and a financial plan for the following three years to the Financial Responsibility Authority for its approval. The Financial

Responsibility Authority has a 30-day period to approve or reject. If rejected, the Mayor has 15 days to submit a revised financial plan and budget to the Financial Responsibility Authority for a 15-day review and approval period. The Mayor submits the approved financial plan and budget, or, if rejected, the Mayor submits the revised financial plan and budget to the Financial Responsibility Authority, which in turn, submits a recommended financial plan and budget to the Council for a 30-day review period. The Council's financial plan and budget act is submitted to the Financial Responsibility Authority for a 15-day period to approve or reject. If rejected, the Council has 15 days to submit a revised financial plan and budget act to the Financial Responsibility Authority for a 15-day review and approval period. The Mayor submits by June 15 the approved financial plan and budget request act, or, if disapproved, the Mayor submits the revised financial plan and budget request act and the Financial Responsibility Authority submits a recommended financial plan and budget to the President of the United States for review, submission to Congress and enactment.

The legally adopted budget is the annual appropriation public law (appropriation act) enacted by Congress and signed by the President. The appropriation act authorizes expenditures at the function level. Congress must enact a revision that alters the total expenditures of any function unless otherwise authorized by an act of Congress.

The District may request a revision to the appropriated expenditure amounts in the appropriation act by submitting to the President and Congress a request for a supplemental appropriation. During a control period, the Mayor may submit proposed revisions to the financial plan and budget during the year by following the same procedures as for the initial budget submission, except that the initial review period by the Financial Responsibility Authority is 20 days instead of 30 and that a revision that does not increase the amount of spending with respect to any function is effective unless rejected by the Financial Responsibility Authority or Congress. In 1999, the District did not submit a supplemental budget request act.

The District may reallocate budget amounts within functions in accordance with District policies contained in the Reprogramming Policy Act (D.C. Code 47-361). The appropriated budget amounts in the budgetary statement (Exhibit 3) include all approved reallocations. Appropriated actual expenditures and uses may not legally exceed appropriated budgeted expenditures and uses at the function level as shown on the budgetary statement. An unfavorable variance in the budgetary statement for a function of expenditure or use is a violation of the Anti-Deficiency Act (31 U.S.C. 1341).

Pursuant to relevant legislation (Public Laws 104-8 and 105-277) the Financial Responsibility Authority has authorized and enacted certain revisions to the original budget as reflected in Exhibit 3, General Fund - Statement of Revenues, Expenditures and Reconciliation of Budgetary Basis with GAAP Basis.

The appropriation act specifies expenditures and net surplus or deficit of revenues. The appropriation act does not specify revenue amounts. Rather, the legally adopted revenue budget is based on the revenue estimates submitted to the President and Congress as modified by the legislative history. The budgetary schedule (Exhibit 3) shows Revenues and Sources as presented in the Committee Reports (House 105-670 and Senate 105-254) and Expenditures and Uses as contained in the appropriation act (PL 105-277). Excess revenues collected over operating expenses were to be applied to (1) the elimination of the general fund accumulated deficit; (2) the establishment of a reserve account not to exceed $250 million to be used to finance seasonal needs (in lieu of short term borrowings); (3) the acceleration of repayment of cash borrowed from the Water and Sewer Fund; and (4) the reduction of the outstanding long-term debt.

The annual appropriated budget is enacted on a basis that is not consistent with generally accepted accounting principles (GAAP) because of differences that result from budgeting inventory, Medicaid (through 1996), certain pension and other employee benefits, and other expenditures on a cash basis, and budgeting dedicated tax revenues to the benefiting fund rather than to the fund with the authority to levy and collect the tax. The budgetary general fund differs from GAAP by including the Financial Responsibility Authority special revenue fund and the University discretely presented component unit and by excluding the Office of Cable Television, the Public Service Commission, the Office of the People's Counsel, Insurance and Securities, Banking, and Correctional Industries. The Financial Responsibility Authority recognizes budgetary expenditures when orders and contracts are issued rather than when goods and services are received. All annual appropriations lapse at year-end.

Encumbrances represent commitments related to unperformed contracts for goods or services. Purchase orders and contracts are recorded to reserve that portion of the applicable appropriation in the governmental funds. Encumbrances generally lapse at year-end in the General Fund but not in the special revenue fund or the Capital Projects Fund. Encumbrances outstanding at year-end in the special revenue fund and the Capital Projects Fund do not constitute expenditures or liabilities because the commitments will be honored during a subsequent year. The fund balance is "reserved for encumbrances" to indicate the portion that is available for expenditure upon vendor performance.

F. CASH AND INVESTMENTS

Cash from all funds of the primary government, excluding the Financial Responsibility Authority, is combined unless prohibited by law. The cash management pool is considered to be cash because it is used as a demand deposit account by each fund. When one fund overdraws its share of the pooled cash, that fund reports a liability to the General Fund, which is deemed to have loaned the cash to the overdrawn fund. The General Fund reports a receivable from the overdrawn fund.

Any cash, which is not needed for immediate disbursement, is used to purchase investments. D.C. Law 12-56, "Financial Institutions Deposit and Investment Amendment Act of 1997," repealed the previous law (D.C. Code 47-341 through 47-350) effective March 18, 1998, and provides the District much more flexibility in its investment choices. However, at September 30, 1999, the District invested primarily, either directly or indirectly (through repurchase agreements) in obligations backed by the federal agencies' securities, with the implicit guarantee of the federal government. Such investments are considered to be the equivalents of cash because they are readily convertible into cash and may not be held for more than approximately three months after purchase. The Pension Trust Funds are authorized to invest in fixed income, equity securities and other types of investments.

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, which approximates fair value. Other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar investments. Investment purchases and sales are recorded as of the trade date. These transactions are not finalized until the settlement date, which occurs approximately three business days after the trade date. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets and as related liabilities for collateral received.

G. RECEIVABLES AND PAYABLES

Taxes receivable are taxes levied by the District and interest and penalties on delinquent taxes, which have not been collected, canceled or abated, less the portion of the receivables estimated not to be collectible. Accounts receivable/payable are amounts owed by/to customers or vendors for goods and services sold or purchased. Intergovernmental receivables/payables are amounts owed by/to other governments, except for goods and services. Interfund receivables/payables or transfers in/out are amounts owed or conveyed between funds in the primary government. Amounts due within one year are classified as Due to/from other funds in the balance sheet. Amounts due after one year are classified as advances. The fund balance is "reserved for advances" to indicate the portion that is not available for expenditure within one year.

H. INVENTORIES

Inventories of supplies on hand at year-end are stated at cost (generally using the weighted-average method). Supplies are recorded as inventory when purchased and as expenditures/expenses when they are consumed or sold.

I. PREPAID AND DEFERRED CHARGES

Payments in advance of the receipt of services are capitalized as prepaid charges at the time of prepayment and recognized as expenditures/expenses when the related services are received.

In governmental fund types, bond discounts (premiums) and issuance costs are recognized in the current period as interest and fiscal charges, respectively. In proprietary fund types, bond discounts (premiums) and issuance costs are capitalized as deferred charges and amortized as fiscal charges over the term of the bonds.

Refunding charges include bond discounts (premiums), issuance costs and payments to escrow agents, less payments to escrow agents made from resources other than proceeds of refunding bonds, and less the face amounts of the refunded bonds. In governmental fund types, refunding charges are recognized in the period of refunding.

J. FIXED ASSETS

General fixed assets are not capitalized in the governmental fund types. Instead, capital outlays are reflected as expenditures in those funds and the related assets are reported in the General Fixed Assets Account Group. Proprietary fixed assets are capitalized in the funds that utilize the assets. All purchased fixed assets are stated at cost when historical records are available and at estimated historical cost when no historical records exist. Assets acquired through capital leases are stated at the lesser of the present value of the lease payments or the fair value of the asset at the date of lease inception. Donated fixed assets are stated at their estimated fair market value on the date received. The costs of maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Betterments are capitalized and depreciated over the remaining useful lives of the related fixed assets. Public domain (infrastructure) improvements, such as bridges, curbs, gutters, lights, sidewalks, streets, and similar assets that are immovable and of value only to the District, are capitalized as improvements.

Depreciation of general fixed assets is accumulated in the General Fixed Assets Account Group and no expenditure is reported for this amount in the governmental fund types. Depreciation of proprietary fixed assets is reported as an operating expense in the funds that utilize the assets. Depreciation on proprietary fixed assets acquired through capital grants is closed to Contributed Capital and reported in the operating statements as an adjustment to net income (loss).

Depreciation is computed using the straight-line method over the estimated useful lives of the fixed assets (shown by type below):

Improvements	30	years
Utility plant	60	years
Building	30-50	years
Equipment	3-15	years
Transit system investment	33	years

Interest is capitalized in proprietary fund types on assets constructed with long-term debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred on tax-exempt debt from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

K. CAPITAL LEASES

Capital lease commitments for the governmental fund types are reported in the General Long-Term Liabilities Account Group and the related assets are reported in the General Fixed Assets Account Group. Capital lease commitments for proprietary funds are reported in those funds as long-term obligations. The related assets along with the depreciation are also reported in those proprietary funds.

L. RESTRICTED ASSETS AND LIABILITIES

All assets of fiduciary funds are restricted as to use by legal or contractual requirements. The Capital Projects Fund includes certain assets and liabilities arising from dedicated taxes that are legally restricted for certain highway projects. Any excess of restricted assets over liabilities payable from restricted assets is reported as "reserved for net restricted assets" to indicate the portion of the fund balance that is available for the restrictive purposes only.

M. COMPENSATED ABSENCES

Accumulated annual (vacation) leave of governmental funds that is expected to be used by the end of the current calendar year is reported as an expenditure and liability of the General Fund. Accumulated annual leave that is expected not to be used by the end of the current calendar year is reported in the General Long-Term Liabilities Account Group. Accumulated annual leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. Unused sick leave is credited at the rate of 22 days equal one month of service at the time of retirement and is added to years of service in the Civil Service Retirement System and in the District Retirement Program.

Accumulated compensatory leave in lieu of paid overtime is reported in the General Long-Term Liabilities Account Group for governmental funds or in the individual fund for proprietary funds.

N. POSTEMPLOYMENT BENEFITS

The cost of providing postretirement health care and life insurance for employees hired before October 1, 1987 is borne by the federal government and the District has no liability for this cost. Employees hired after September 30, 1987 who subsequently retire may be eligible to continue their health care benefit plan (D.C. Code 1-622) and to convert their group life insurance to individual life insurance (D.C. Code 1-623). No liability for the District's portion of the cost of postretirement benefits is recorded and the cost is recognized as an expenditure when the premiums are paid. The District has recognized $104 as expenditures for health and life insurance premiums paid during 1999. As of September 30, 1999, there were 15,814 annuitants who received these benefits.

O. LONG-TERM LIABILITIES

General obligation bonds, revenue bonds and other long-term liabilities directly related to and intended to be paid from Proprietary Funds are included in the accounts of such funds. All other long-term indebtedness of the District, such as disability compensation, compensated absences, employee separation incentives and accreted interest liabilities, which have been incurred but not financed, are reported in the General Long-Term Liabilities Account Group. Such obligations are to be paid through the District's Debt Service Fund.

Under the District of Columbia Self-Government and Governmental Reorganization Act, no long-term general obligation debt (other than refunding debt) may be issued during any fiscal year in an amount which would cause the amount of the principal and interest paid in any fiscal year on all long-term general obligation debt to exceed 14% of the revenues of the fiscal year in which the debt is issued. However, as a result of the National Capital Revitalization and Self-Government Improvement Act of 1997, this debt service limitation increased from 14 to 17 percent. This increase accounted for the decrease in revenues from the repeal of the federal payment in lieu of taxes and the loss of court revenues. The debt service percent is calculated using the highest fiscal year debt service divided by the total revenues.

Capital appreciation bonds are issued with a stated interest rate of zero percent. The associated interest is not paid until the bonds mature. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the General Long-Term Liabilities Account Group. The accreted value of such bonds is the current value, taking into account the interest that has been accumulating and automatically reinvested in the bonds.

P. SHORT TERM DEBT

During the year, the District issued and extinguished $230,000 of general obligation tax revenue anticipation notes. The stated interest rate, interest cost, and payment dates for principal and interest were as follows for each note:

Issue Date	Issue Amount	Interest Rate	Interest Cost	Payment Date
11/05/98	$50,000	5.06%	5.39%	11/19/98
11/19/98	$180,000	3.75%	3.49%	09/30/99

Q. CONDUIT DEBT

The District has issued, under its Industrial Revenue Bond Program, private activity bonds for which the principal and interest are payable solely from defined revenues of private entities, such as non-profit organizations. The District has no obligation for this debt beyond resources that may have been provided by related leases or loans. The issuance of such bonds allows these entities to borrow at the municipal bond rate. These bonds provide economic incentive to construct, modernize, or enhance private entity facilities in the District, thereby supporting the economic base of the District. These bonds are conduit debt obligations and accordingly are not recorded as liabilities of the District. As of September 30, 1999, the aggregate outstanding principal amount for these bonds was $2,286,271.

R. FUND BALANCE RESERVATIONS AND DESIGNATIONS

Unreserved fund balance is the amount available for future operations. Reservations of fund balance represent amounts that are legally or statutorily identified for specific purposes, whereas, designations of fund balance represent management's intent to fund future projects, but do not represent a legal or statutory requirement to do so.

The District has established the following reservations as of September 30, 1999:

Fund balance - reserved for long-term assets - This portion of fund balance represents those assets of the District that are not available for appropriation.

Fund balance - reserved for encumbrances - This portion of fund balance represents resources of the District that are encumbered or appropriated for purchase orders or other contractual obligations.

Fund balance - reserved for capital project expenditures - This portion of fund balance represents resources of the District that are to be used for capital projects funded by the Federal Highway Administration.

Fund balance - reserved for future benefits - This portion of fund balance represents resources of the District that are set aside for employee benefit payments from the Unemployment Compensation Expendable Trust and the Pension Trust funds.

S. TAXPAYER AND REVITALIZATION ACTS

Taxpayer Relief Act

The Taxpayer Relief Act of 1997 (PL 105-34) (the Relief Act) provides federal tax and other incentives to stimulate economic development in the District. The Relief Act established the District of Columbia Enterprise Zone (Enterprise Zone) from January 1, 1998 through December 31, 2002. The Enterprise Zone consists of the existing enterprise community plus all other census tracts for which the poverty rate is at least 20%. The Relief Act increases the limitation on tax-exempt economic development bonds to $15,000 and eliminates the federal capital gains tax through December 31, 2007, on business stock, partnership interest, and business property held for more than five years in all census tracts for which the poverty rate is at least 10%. The Relief Act provides a federal income tax credit of no more than $5,000 for qualified first time homebuyers through December 31, 2000.

National Capital Revitalization and Self-Government Improvement Act

The National Capital Revitalization and Self-Government Improvement Act of 1997 (PL 105-33) (Revitalization Act) made significant changes effective October 1, 1997 to the Charter of the District with the objectives of revitalizing the District as the Nation's Capital and improving the prospects for home rule to succeed. The changes have impacted the functions, management and financial condition of the District.

Public Safety

The Revitalization Act transferred certain public safety functions from the District to the federal government. The Federal Bureau of Prisons will be responsible for sentenced adult felons. By October 1, 2001, felons sentenced consistent with federal Truth-in-Sentencing guidelines will be transferred to a facility operated or contracted by the Bureau of Prisons. By December 31, 2001, the District's Lorton Correctional Complex in Virginia will be closed and the property returned to the federal government. During this transition period, the Department of Corrections is overseen by a Corrections Trustee appointed by the U.S. Attorney General in consultation with the Mayor, Council, Financial Responsibility Authority, and representatives of the District's judiciary. The expenditures of the Corrections Trustee are provided by a direct appropriation to the trustee of federal dollars. The District will continue to provide correctional treatment for juvenile and misdemeanor offenders.

The operations of the Superior Court, Appeals Court and Court System have been transferred to the federal government and are included in the federal budget of the Joint Committee on Judicial Administration in the District of Columbia.

The federal government assumed financial responsibility for the D.C. Parole Board, Pretrial Services Agency and Public Defender Service functions. During 1998, the United States Parole Commission assumed responsibility to grant, deny, or impose conditions on parole for imprisoned felons. By September 30, 2000, a new federal agency, the D.C. Offender Supervision, Defender and Courts Services Agency, will supervise offenders on probation, parole, and supervised release. Upon establishment of this agency, the D.C. Parole Board will be abolished. The Pretrial Services Agency and the Public Defender Service will function as independent entities within the new agency. During the transition, these functions are supervised by an Offender Supervision Trustee, whose expenditures are provided by a direct appropriation to the trustee of federal dollars.

Financial Reforms

The Revitalization Act has made changes that impact the overall financial condition of the District, affecting both revenues and expenditures.

In 1997, the Revitalization Act repealed the authorization for the annual federal payment in lieu of taxes of $660,000. The payment was replaced by a $190,000 federal contribution for the District's general operations in 1998 and an authorization for such amounts thereafter "as may be necessary" to reflect restrictions and unusual costs imposed on the District by the federal government. In 1999, federal appropriations enacted by Congress for the District totaled $683,639.

The federal participation rate for the Medicaid program was 70% for eligible services provided on or after October 1, 1997 (Public Law 105-33). This rate will be effective until revised by the Health Care Financing Administration (HCFA).

With the transfer of the judicial function to the federal government, the District Retirement Program covering judges was transferred to the federal government and the federal government assumed full responsibility for the plan. All assets of the Judges Pension Trust Fund were transferred to the federal government during 1999.

In addition, the federal government assumed full responsibility for benefits under the District's Retirement Program for the pensions of teachers, police officers and fire fighters for service rendered prior to July 1, 1997. The District remains responsible for benefits for services rendered after June 30, 1997, and has revised the plan provisions, as required by the Revitalization Act, that continues the plan under substantially the same terms. Of the assets associated with these plans, the Pension Trust Funds retain $1,275,000 plus contributions made after June 30, 1997 by employees and interest thereon. The remaining assets were transferred to the federal government in 1999. The accrued pension cost of $3,487,998 at the close of 1997 was assumed by the federal government in 1998. Accordingly, any associated accruals are not reflected in the general long-term liabilities account group for 1999.

The Act authorizes borrowing up to $500,000 to finance the accumulated General Fund deficit as of September 30, 1997. The Act further authorizes the District to borrow not more than $300,000 from the U.S. Treasury through 2000 to finance that accumulated deficit provided that the borrowing is "provided in advance in annual appropriation acts," the District is effectively unable to reasonably obtain financing in the private market and other conditions are met.

T. FUTURE CASH POSITION AND RESULTS OF OPERATIONS

As of the beginning of fiscal year 1999, the District had projected cash requirements in excess of regular projected receipts of approximately $140 million during the fiscal year. To cover these projected cash flow needs, the District issued general obligation tax revenue anticipation notes of $180 million in November 1998, which were repaid in September 1999.

Prior to the development of the Public Benefit Corporation, D. C. General Hospital had an accumulated cash deficit of $85,000. The Public Benefit Corporation was relieved of these obligations as a result of an agreement with the District in 1998 that eliminated $55,000 of this debt and the enactment of the Service Improvement and Fiscal Year 2000 Budget Support Act (D. C. Law 13-38) through which the remaining deficit was relieved.

NOTE 2. CASH AND INVESTMENTS

A. CASH

At year-end, the carrying amount of the deposits was $479,475 for the primary government and $30,614 for the component units, and the bank balance was $543,127 and $46,874 , respectively. As required by law and except as follows, the bank balance was entirely insured or collateralized with securities held by the District or by its agent in the District's name.

B. INVESTMENTS

The financial reporting entity's investments are categorized as either (1) insured or registered, with securities held by the District or its agent in the District's name or (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name. The District holds no investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the District's name. Investments not evidenced by securities that exist in physical or book entry form are not categorized. Investments by type and category at September 30, 1999 follow.

Investment Type	Category 1	Category 2	Carrying Amount	Fair Value
PRIMARY GOVERNMENT:				
Pooled investments:				
Repurchase agreements	$ 532,683	-	532,683	532,683
Subtotal	532,683	-	532,683	532,683
Pension Trust Funds:				
Investments - held by Board's agent in Board's name				
Cash and cash equivalents		-		
Equities (of which $1,167 on securities loan with securities and other collateral)	1,035,254	-	1,035,254	1,035,254
Fixed income security (of which $21,538 on security loan with securities and other collateral)	255,618	-	255,618	255,618
Real estate	4,607	-	4,607	4,607
Payable on investment transactions	-		-	-
Subtotal	1,295,479	-	1,295,479	1,295,479
Investments - not categorized:				
Investments - held by broker-dealer under securities				
Loans with cash collateral:				
Equities			72,865	72,865
Fixed income security			35,050	35,050
Securities lending collective investment pool			111,094	111,094
Subtotal			219,009	219,009
Total pension trust funds	1,295,479	-	1,514,488	1,514,488
Other:				
U.S. Government securities	663,927	-	663,927	663,927
Repurchase agreements	3,409	-	3,409	3,409
Corporate securities	-	12,470	12,470	12,470
Subtotal	667,336	12,470	679,806	679,806
Mutual Funds			39,128	39,128
Total primary government	$ 2,495,498	12,470	2,766,105	2,766,105
COMPONENT UNITS:				
U.S. Government securities	561,830	202,102	763,932	763,932
Repurchase agreements	74,178	-	74,178	74,178
Corporate securities	82,164	161,430	243,594	243,594
Cash and cash equivalents	-	-	-	-
Subtotal	718,172	363,532	1,081,704	1,081,704
Mutual Funds			65,500	65,500
Total component units	$ 718,172	363,532	1,147,204	1,147,204
Total reporting entity			$ 4,423,398	4,423,398

C. DERIVATIVE INVESTMENTS

Derivatives are generally defined as contracts, the values of which depend on or derive from the value of an underlying asset, reference rate, or index. Derivative investments generally contain exposure to market risk resulting from fluctuations in interest and currency exchange rates or changes in the price or principal value of a security. The investment credit risk results from the creditworthiness of the counterparties to the contracts and, for asset backed securities and collateralized mortgage obligations, the creditworthiness of the related consumers and mortgagees. The Retirement Board believes that all contracts are legally permissible in accordance with its policy.

During 1999, the Pension Trust Funds (the Funds), in accordance with the policy of the Retirement Board, invested in various derivative instruments either to increase potential earnings or to hedge against potential losses. These included foreign currency forward contracts, mortgage backed security pools, collateralized mortgage obligations, asset backed securities and floating rate notes, interest only treasury securities, bond options and futures, and equity index futures.

Forward foreign currency contracts are used for defensive purposes only. These contracts hedge a portion (25% maximum) of the Funds' exposure to particular currencies on occasions when significant adverse short-term movements in exchange rate levels are expected. The foreign currency contracts can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to the possible movements in the foreign exchange rates underlying the forward currency contracts. Market risk is managed by only dealing with counterparties with short-term credit ratings of A1 or P1.

The Funds used mortgage backed securities (MBS), forward contracts for mortgage backed securities (TBA-MBS), collateralized mortgage obligations (CMOs), asset backed securities (ABS), structured notes, stripped/zero coupon bonds and floating rate notes primarily to increase potential returns. Investing in an MBS is similar to investing in a pool of mortgage loans. An MBS offers investors higher yields with higher market risk compared to comparable U.S. Treasury securities. A CMO may have higher or lower yields with less or more market risk than a comparable MBS. An ABS offers higher potential yields than comparable U.S. Treasuries with additional market risk. Market risk is managed by monitoring the duration of the investments. Credit risk is managed by monitoring the collateral of each security and any related guarantee. Forward contracts to purchase MBS (also referred to as TBA-MBS) are used by the Funds with the expectation of raising the effective yield on mortgage holdings versus holding an MBS outright. It is assumed that TBA-MBS positions have duration and convexity characteristics similar to those of an MBS with identical coupons and maturities. This ensures the portfolio's sensitivity to interest rate changes does not increase beyond that which is allowed by the Retirement Board's investment policies. TBA-MBS agreements carry a degree of counterparty risk, which is reduced to low levels by transacting only with primary dealers.

Floating rate notes (securities that pay an interest rate tied to an index) are subject to market risk to the extent of the movement of the underlying index in relation to market rates. A downward movement in the underlying index would negatively impact the interest income received on this security. Upward movements in interest rates do not adversely affect floating rate notes as much as fixed rate securities. Thus, the floating rate notes may be used as a hedge against upward changes in interest rates.

The Funds also used structured notes with step-up coupons that pay interest according to a pre-set series of interest rates that start at one rate and then step up to higher rates on specific dates. Additionally, the Funds invested in stripped/zero coupon bonds, purchased at a discount, that do not pay any interest rate. Such securities offer higher yields than comparable U.S. Treasury notes in exchange for higher market and/or credit risks.

At least one of the commingled funds used by the Funds used equity index futures to gain exposure to U. S. equity markets in a more efficient and liquid manner. Equity index futures can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Credit risk relates mostly to the risk of dealing with futures exchanges.

Exchange traded and over-the-counter bond options were purchased during the year, primarily to gain exposure to underlying bond positions. All positions were purchases, limiting market risk to the cost of the option, and all options were sold or expired prior to year-end. Credit risk is minimized by trading via exchanges and investment grade counterparties.

Warrants were used by the Funds to gain equity exposure and to enhance performance. Issuers often distribute warrants to holders of common stock and bonds. The warrants are held for the same fundamental reasons as the original common stock and/or bond holdings. Market risk is limited to the purchase cost, if any. Credit risk is similar to the underlying equity and/or bond holdings.

The Pension Trust Funds also hold derivative instruments indirectly by participating in mutual funds or investment pools that hold derivatives. Information regarding any risks associated with these holdings is generally not available.

At September 30, 1999, the Pension Trust Funds portfolio included $171,807 of derivative instruments, or 9.4% of the pension investment portfolio. The proportion of derivative instruments varied at times throughout the year. Further information regarding balances throughout the year is not available. Derivative investments by type at September 30, 1999 are as follows.

Investment Instrument Type		Fair Value
Mortgage backed security pools	$	15,032
Collateralized mortgage obligations		7,924
Asset backed securities		12,537
Floating rate notes		27,102
Mortgage backed securities forward contracts		107,935
Structured notes (including stripped securities)		2,507
Foreign currency futures contracts, net (sales $1,230)		(1,230)
Total derivatives	$	171,807

As of September 30, 1999, the Housing Finance Agency, through its Single-Family Program Fund, held $198,702 in Government National Mortgage Association (GNMA) certificates, which are classified as mortgage-backed securities.

D. SECURITIES LENDING TRANSACTIONS

In accordance with District statutes and the Retirement Board's policies, the pension trust funds participated in securities lending transactions. During 1999, the Retirement Board loaned securities and received collateral in the form of currency, securities issued or guaranteed by the United States government and sovereign debt of Organization of Economic Cooperation and Development countries. The collateral could not be pledged or sold unless the borrower defaulted on the loan. The value of the collateral was at least 102% of the market value of the loaned securities if those securities were sovereign debt issued by a foreign government, denominated in United States dollars or their primary trading market was located in the United States. The value of the collateral was at least 105% of the market value of all other loaned securities.

The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. At September 30, 1999, the investment pool had an average duration of 70 days and an average weighted maturity of 277 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral.

During 1999, the Retirement Board did not restrict the amount of loaned securities. No failure to return loaned securities or to pay distributions occurred during the year, and no losses were incurred from a default of a borrower or the master custodian. The Retirement Board and the borrowers had the right to terminate on demand the securities lending transactions. The pension trust funds had no credit risk exposure to borrowers as of year-end. As of September 30, 1999, the pension trust funds held $134,420 of collateral against $130,620 of loaned securities.

At the close of 1999, gross earnings from securities lending transactions totaled $15,266. The income (net of amortization and accretion), the net realized/unrealized gain attributable to discount and premium, and the net increase in net assets resulting from operations totaled $12,337, $2,930 and $15,267, respectively. The pension trust funds net earnings on securities lending transactions totaled $469 in 1999.

NOTE 3. INTERFUND AND COMPONENT UNIT RECEIVABLES AND PAYABLES AND OTHER RECEIVABLES

A. INTERFUND AND COMPONENT UNIT RECEIVABLES AND PAYABLES

Interfund receivable and payable balances for each individual fund and component unit at September 30, 1999 follow.

		Primary Government/ Component Units		Interfund	
Fund or Component Unit		**Receivables**	**Payables**	**Receivables**	**Payables**
General	$	44,236	43,360	195,395	590
Financial Responsibility Authority		-	-	546	5,446
Capital Projects		-	-	469,426	-
Unemployment Compensation		-	-	1,117	1,073
Financial Responsibility Authority Fund		-	5,890	5,446	663,484
Pension Trust		-	-	1,610	2,947
Public Benefit Corporation		-	42,059	-	-
Water and Sewer		38,590	-	-	-
Convention Center		4,794	-	-	-
Sports Commission		-	2,177	-	-
University		5,866	-	-	-
Total	**$**	**93,486**	**93,486**	**673,540**	**673,540**

B. OTHER RECEIVABLES

Taxes and accounts receivable are valued at their estimated collectible amount. A summary of these receivables follows.

		General Fund	Capital Projects	Enterprise	Trust and Agency
Gross Receivable:					
Taxes	$	308,999	-	-	-
Accounts		260,411	15,103	3,414	17,537
Total gross receivable		**569,410**	**15,103**	**3,414**	**17,537**
Less-allowance for uncollectibles		161,798	-	456	-
Total net receivable	**$**	**407,612**	**15,103**	**2,958**	**17,537**

NOTE 4. FIXED ASSETS

A. GENERAL FIXED ASSETS BY CLASS

A summary of changes in general fixed assets by asset class and resources invested follows.

Asset Class	Balance October 1, 1998	Acquisitions	Transfers/ Dispositions	Balance September 30 1999
Land	$ 241,429	-	(1,141)	240,288
Improvements	2,108,861	-	106,080	2,214,941
Buildings	2,294,588	1,095	(4,021)	2,291,662
Equipment	303,753	15,826	22,126	341,705
Construction in progress	35,902	356,450	(301,103)	91,249
Transit system infrastructure	803,778	-	12,000	815,778
Total	**5,788,311**	**373,371**	**(166,059)**	**5,995,623**
Less-accumulated depreciation	(2,493,409)	(162,552)	38,370	(2,617,591)
Net general fixed assets	**$ 3,294,902**	**210,819**	**(127,689)**	**3,378,032**
Governmental	$ 2,416,907	166,288	(125,971)	2,457,224
Intergovernmental	877,995	44,531	(1,718)	920,808
Total resources invested	**$ 3,294,902**	**210,819**	**(127,689)**	**3,378,032**

Acquisitions consist of expenditures from the General Fund totaling $16,921 and from the Capital Projects Fund totaling $356,450. When a project is completed, costs in the construction in progress account are transferred to one or more of the other asset classes or are removed.

B. GENERAL FIXED ASSETS BY FUNCTION

A summary of changes in general fixed assets by function follows.

Function	Balance October 1, 1998	Acquisitions	Transfers/ Dispositions	Balance September 30 1999
Governmental direction and suppor	$ 444,398	1,231	25,856	471,485
Economic development and regulatio	132,477	1,674	233	134,384
Public safety and justice	683,244	8,115	16,155	707,514
Public education system	695,494	3,979	(4,303)	695,170
Human support services	445,920	980	(18,401)	428,499
Public works	2,547,098	942	103,505	2,651,545
Construction in progress	35,902	356,450	(301,103)	91,249
Transit system infrastructure	803,778	-	11,999	815,777
Total	**$ 5,788,311**	**373,371**	**(166,059)**	**5,995,623**

C. ENTERPRISE FUNDS FIXED ASSETS

A summary of changes in enterprise funds fixed assets by asset class follows.

Asset Class	Balance October 1, 1998	Acquisitions	Transfers/ Dispositions	Balance September 30 1999
Equipment	$ 3,048	106	-	3,154
Total	**3,048**	**106**	-	**3,154**
Less-accumulated depreciation	(2,521)	(233)	-	(2,754)
Net fixed assets	**$ 527**	**(127)**	-	**400**

D. DISCRETELY PRESENTED COMPONENT UNITS FIXED ASSETS

A summary changes in discretely presented component unit fixed assets by asset class and contributed capital follows.

Asset Class	Balance October 1, 1998	Acquisitions	Transfers/ Dispositions	Balance September 30 1999
Land	$ 41,354	420	-	41,774
Utility plant	1,480,706	3,178	70,570	1,554,454
Buildings	341,579	103	710	342,392
Equipment	126,826	3,099	261	130,186
Construction in progress	124,771	191,257	(96,195)	219,833
Total	**2,115,236**	**198,057**	**(24,654)**	**2,288,639**
Less-accumulated depreciation	729,429	41,060	(9,377)	761,112
Net fixed assets	**$ 1,385,807**	**156,997**	**(15,277)**	**1,527,527**
Governmental	$ 479,978	1,094	(4,975)	476,097
Intergovernmental	224,847	9,245	(9,933)	224,159
Total contributed capital	**$ 704,825**	**10,339**	**(14,908)**	**700,256**

Acquisitions include $254 from the Capital Projects Fund.

E. CONSTRUCTION IN PROGRESS

A summary of construction in progress by function at September 30, 1999 follows.

Function	Number of Projects	Authorizations	Expenditures	Unexpended Balances
Governmental direction and suppor	6	$ 185,185	73,612	111,573
Master lease program * (note 9)		11,900	1,621	10,279
Public safety and justice	4	27,441	8,293	19,148
Public education system	2	202,157	3,098	199,059
Human support services	5	69,845	3,321	66,524
Public works	3	9,376	1,304	8,072
Total general	**20**	**$ 505,904**	**91,249**	**414,655**
Water and sewer	32	$ 472,273	83,661	388,612
Convention center	1	136,172	136,172	-
Total component units	**33**	**$ 608,445**	**219,833**	**388,612**

*Includes construction of trucks, emergency vehicles and other similar fire apparatus and medical services equipment.

NOTE 5. LONG TERM LIABILITIES

A. LONG-TERM DEBT

Long-term debt of the primary government, which was comprised of original, refunding and funding issues of serial/term general obligation bonds payable to the public, totaled $3,241,244 at September 30, 1999. A portion of this debt ($107,662) at September 30, 1999 is the statutory responsibility of the Water and Sewer Authority (WASA), and is therefore included as part of WASA's total long-term obligations. The bonds are secured by the full faith and credit of the District and by deposits with banks of a special real property tax for payment of bond principal and interest. At September 30, 1999, cash and investments with fiscal agents for 2000 debt service payments were $213,473.

On July 15,1999, the District issued $241,190 in serial and term bonds with various interest rates and maturities (Series 1999A) and $685,715 of general obligation refunding bonds (Series 1999B) for a total of $926,905. Bond proceeds of $708,612 included the 1999B bonds of $685,715, a premium of $18,583 and a residual amount of $4,314 in bond proceeds from the 1999A issuance. These proceeds were used to pay issuance costs totaling $4,314 (Series 1999A) and $6,903 (Series 1999B), to fund FY 1999 capital project expenditures in the amount of $236,876 in accordance with the FY 1999 Budget and Financial Plan and to legally defease general obligation bonds payable of $658,192. For financial reporting purposes, this debt has been considered defeased and therefore removed as a liability from the General Long-Term Liabilities Account Group. The effective interest rate for the bonds was 5.23%.

As part of the refunding transaction described above, a portion of WASA's general obligation bonds totaling $425 were refunded. The District and WASA entered into an agreement stipulating that WASA will reimburse the District for the debt service principal in the years 2000 and 2001 in the amount of $210 and $215, respectively. The amount payable to the District is included as part of WASA's long-term debt at September 30, 1999. The refunding gave rise to an economic gain of $5,185 resulting from reduced future interest payments.

This refunding resulted in the following:

Prior Debt Service	Debt Service Refunding	Refunding Receipts	Refunding Net Cash Flow	Net Savings
$815,719	$1,032,809	$2,788	$1,030,021	($214,301)

A summary of changes in general long-term bonds for which the primary government is responsible follows.

		Component Unit - WASA		General Obligation		
		Notes	**Bonds**	**Notes**	**Bonds**	**Total**
Debt payable at October 1, 1998	$	-	**114,122**	-	**3,091,403**	**3,205,525**
Bond proceeds:						
Series 1999A (improving)		-	-	-	241,190	**241,190**
Series 1999B (refunding)		-	-	-	685,715	**685,715**
Total		-	**114,122**	-	**4,018,308**	**4,132,430**
Debt payments:						
Principal matured		-	6,035	-	226,534	**232,569**
Principal refunded		-	425	-	658,192	**658,617**
Debt payable September 30, 1999		-	**107,662**	-	**3,133,582**	**3,241,244**
Less-current maturities		-	7,515	-	35,000	**42,515**
Long term debt	$	-	**100,147**	-	**3,098,582**	**3,198,729**

A summary of principal and interest requirements to maturity of general long-term debt for which the primary government is responsible follows.

		Component Unit - WASA		General Obligation		
Year Ending September 30		**Principal**	**Interest**	**Principal**	**Interest**	**Total**
2000	$	7,515	5,796	181,248	165,744	360,303
2001		8,965	5,386	163,610	163,550	341,511
2002		12,147	4,923	157,613	151,524	326,207
2003		13,511	4,292	173,809	142,968	334,580
2004		14,432	3,551	176,053	134,423	328,459
2005-2009		45,907	7,291	1,016,073	517,036	1,586,307
2010-2014		5,185	400	759,286	313,704	1,078,575
2015-2018		-	-	505,890	219,241	725,131
Total	$	**107,662**	**31,639**	**3,133,582**	**1,808,190**	**5,081,073**

The District has made provisions to retire $35,000 of general obligation debt in advance of its scheduled maturity date. This unscheduled principal retirement is not reflected in the above amortization of general obligation debt and is recorded as a general fund liability at September 30, 1999.

Water and Sewer Authority

The Water and Sewer Unit derives its funding for capital projects from the issuance of revenue bonds, District general obligation bonds, notes payable to the federal government, contributions from the Intermunicipal Agreement (IMA) and various other sources. Notes payable to the federal government for capital improvements to the Washington Aqueduct are specifically secured by user charges assessed on retail customers. The interest rates, which range from 4.75% to 5.89% during 1999, are reset each quarter as determined by the U.S. Treasury and are based on a comparable three-month taxable special fund obligation. Debt outstanding at September 30, 1999 totaling $415,885 included a net unamortized bond premium of $6,654 and a remaining principal balance of $409,231.

A summary of principal and interest requirements to maturity of the long-term debt of the Water and Sewer Authority follows:

Year Ending September 30	Principal	Interest	Total
2000	$ 8,595	22,362	30,957
2001	10,158	21,871	32,029
2002	13,287	21,326	34,613
2003	14,450	20,615	35,065
2004	15,263	19,820	35,083
2005 - 2009	77,553	87,477	165,030
2010 - 2014	66,925	69,388	136,313
Thereafter	203,000	85,788	288,788
Subtotal	409,231	348,647	757,878
Unamortized Bond Premium	6,654	-	6,654
Total	**$ 415,885**	**348,647**	**764,532**

Housing Finance Agency

Long-term debt consists of term and serial bonds which are subject to redemption at the option of the Housing Finance Agency in accordance with the terms of the respective bond indenture and bond resolution, in whole or in part, on various dates at prescribed redemption prices. Included in certain bond issues are capital appreciation bonds. The principal amount of these bonds appreciates either annually or semiannually, compounding on the original principal balance. These bonds are recorded in the financial statements at their current appreciated amounts.

Bonds have been issued to provide financing for the agency's housing programs and are collateralized by:

- Mortgage loans made on the related developments or single-family residential mortgage loans purchased.
- Substantially all revenues, mortgage payments, and recovery payments received by the agency from mortgage loans made on the related developments.
- Certain accounts, generally debt service reserve funds, established pursuant to the indenture authorizing issuance of the bonds.

The agency has the option to redeem the various bonds at premiums ranging up to 5%. This option generally cannot be exercised until the bonds have been outstanding for ten years as provided in the various indentures. Term bonds are generally subject to redemption, without premium, from mandatory sinking fund payments.

Amounts payable subsequent to 1999, when actually due, will include additional accretion on capital appreciation bonds and the effects of amortization of both premium and discount.

A summary of principal and interest requirements to maturity of the long-term debt of the Housing Finance Unit follows.

Year Ending September 30		Principal	Interest	Total
2000	$	55,711	33,214	88,925
2001		3,881	31,944	35,825
2002		3,980	31,829	35,809
2003		15,675	31,127	46,802
2004		11,500	30,777	42,277
Thereafter		463,003	593,380	1,056,383
Subtotal		553,750	752,271	1,306,021
Unamortized Bond Premium		1,068	-	1,068
Total	**$**	**554,818**	**752,271**	**1,307,089**

Several component units have long-term obligations for which the District does not bear primary responsibility. These are discussed briefly below.

Washington Convention Center

On September 29, 1998, the Convention Center Unit issued $524 million in lien dedicated tax revenue serial and term bonds at various interest rates and maturities. The proceeds will be used to construct and equip the new Convention Center. The bonds are special obligations of the Convention Center and not a debt or pledge of the District Government. At September 30, 1999, the unamortized bond discount was $6,764 and bond issuance costs to be amortized over the bond maturity were $10,300. The first interest payment was made in April 1999. As of September 30, 1999, pledged investments of $577,964 were held by the bond trustee in compliance with the debt service and reserve account requirements. A summary of principal and interest requirements to maturity of the long-term debt of the Convention Center follows.

Year Ending September 30		Principal	Interest	Total
2000	$	-	28,114	28,114
2001		-	25,952	25,952
2002		-	25,952	25,952
2003		-	25,952	25,952
2004		10,225	25,952	36,177
2005 - 2009		58,830	122,043	180,873
2010 - 2014		75,535	105,336	180,871
Thereafter		379,870	162,741	542,611
Total	**$**	**524,460**	**522,042**	**1,046,502**

B. OTHER LONG TERM LIABILITIES

A summary of changes in other long-term liabilities follows.

Account		Balance October 1, 1998	Additions	Deductions	Balance September 3 1999
Component Unit:					
Deferred revenue	$	327,470	17,265	-	344,735
Capital leases payable (Note 9)		2,400	-	75	2,325
Total	**$**	**329,870**	**17,265**	**75**	**347,060**
Enterprise:					
Prize annuities payable	**$**	**93,103**	**-**	**12,466**	**80,637**
General:					
Accrued disability compensation (Note 1	$	294,599	62,104	158,418	198,285
Accumulated annual leave		54,842	7,377	5,782	56,437
Accumulated compensatory leave		7,378	-	7,378	-
Deferred compensation		16,316	-	-	16,316
Accreted interest		42,900	-	26,801	16,099
Capital leases payable (Note 9)		124,181	13,923	5,915	132,189
Construction contracts payable (Note 4)		41	40	71	10
Total	**$**	**540,257**	**83,444**	**204,365**	**419,336**

NOTE 6. TRUST AND AGENCY FUNDS

A. UNEMPLOYMENT COMPENSATION

The District sponsors the state Unemployment System for the District of Columbia, which is administered by the Office of Unemployment Compensation within the Department of Employment Services and is accounted for as a separate Unemployment Compensation Trust Fund. The fund pays benefits to unemployed former employees of the District and federal governments and private employers who employ individuals in the District. The District and federal governments reimburse the fund for benefits paid by it to their respective unemployed former employees. Private employers contribute to the fund at statutory rates. Administrative costs of the system are paid by the General Fund and reimbursed by a federal grant. The fund had a total reserved fund balance for future benefits of $220,662 at September 30, 1999.

B. DEFINED BENEFIT PENSION PLANS

Plan Descriptions

The federal government administers the Civil Service Retirement System (5 U.S.C. 8331) which covers permanent full-time employees hired before October 1, 1987 (except those covered by the District Retirement Program) and the Social Security System (42 U.S.C. 301) which covers all other employees (except those covered by the District Retirement Program).

Effective for the first pay period ended on or after October 1, 1997, the Balanced Budget Act of 1997 (Public Law 105-33) mandated an increase in the agency contribution for most Civil Service covered employees from 7% to 8.51% (9.01% for law enforcement officers and firefighters). The agency contribution rate will revert to 7.5% in October 2002, and then back to 7% in January 2003. The employee contribution rate for Civil Service covered employees changed to 7.25% on January 20, 1999.

District contributions to the pension plans administered by the federal government, for the years ended September 30, 1999 and 1998, were as follows. The District has no further liability to these plans.

Plan	Rate	Employees		1999	1998
Civil Service	8.51 %	9,450	$	33,245	33,231
Social Security	7.65	10,250		34,417	30,553
Total		**19,700**	**$**	**67,662**	**63,784**
Total payroll			$	1,492,649	1,458,251

The District Retirement Programs (D.C. Code 4-601, 11-1561, 31-1201) are single employer defined benefit pension plans administered by the Retirement Board and accounted for as pension trust funds. Each of the two plans provides retirement, death and disability benefits, and annual cost of living adjustments to plan members and beneficiaries. Administrative costs of the Retirement Board are financed by the funds. Administrative costs of benefit payments and census data are financed and recorded by the General Fund of the District. Each plan issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports may be obtained through written request to the District of Columbia Retirement Board, Executive Director, 1400 L Street, NW, Suite 300, Washington, D.C., 20005.

Funding Policy

The Retirement Board established and may amend the contribution requirements of plan members and the District for each plan. The District's annual pension cost for the current year is as follows:

	Police and Fire	Teachers
Contribution rates		
Plan members	7% - 8%	7% - 8%
Annual pension cost (millions)	$35.1	$18.6
Contributions made (millions)	$35.1	$18.6
Actuarial valuation date	10/01/97	10/01/97
Actuarial cost method	*Aggregate	*Aggregate
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	7.25%	7.25%
Projected salary increases	5.5 - 8.8%	5.3 - 8.8%
Inflation rate	5%	5%
Cost of living adjustments	5%	5%

* The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

Pension Cost

Due to the changes in the District's retirement plan because of the impact of the Revitalization Act, only one year of annual pension cost and required supplementary information is provided:

	Year Ended	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation
Police and Fire	09/30/99	$35.1	100%	$0
Teachers	09/30/99	$18.6	100%	$0

The District made its actuarially required contribution of $35.1 million to the Police and Fire Fighters Plan and $18.6 million to the Teacher's Plan during the year ended September 30, 1999. The fiscal year 1999 ARC, based on the actuarial valuation as of October 1, 1997, reflected a contribution amount of $12,800 to the Teachers' Plan for that year. During 1998, the District of Columbia Public Schools began offering an early retirement program. The actuarially certified amount for the increase in the District's payment to the Teachers' Retirement Fund, as a result of this benefit change, was $5,800.

C. DEFINED CONTRIBUTION PENSION PLAN

The District sponsors a defined contribution pension plan (D.C. Code 1-627) with a qualified trust under Internal Revenue Code section 401(a) for permanent full-time employees covered by the Social Security System. The District contributes 5% (5.5% for detention officers) of base salaries each pay period. Employees do not contribute to the plan and are eligible to participate after 1 year of service. The District contributed $14,202 and $13,285 in 1999 and 1998, respectively, on covered payroll of $289,816 and $248,435. Contributions and earnings vest fully after four years of service following a one-year waiting period. Contributions and earnings are forfeited if separation occurs before five years of credited service. Contributions are not assets of the District, which has no further liability to this plan.

D. DEFERRED COMPENSATION PLANS

The District offers its employees a deferred compensation plan (D.C. Code 47-3601) created in accordance with Internal Revenue Code Section 457. Employees, other than teachers, may defer up to 25% of their annual compensation, not to exceed $8,000. Compensation deferred and income earned are taxable when paid or made available to the participant or beneficiary upon retirement, death, termination or unforeseeable emergency. Contributions are not assets of the District, which has no further liability to this plan.

The District sponsors an annuity purchase plan (D.C. Code 31-1252) with insurance companies and other issuers under Internal Revenue Code section 403 for public teachers covered by the District Retirement Program. Employees may defer up to $10,000 of their annual compensation and employees with more than fifteen years of service may defer up to $13,000. The District does not contribute to the plan. Contributions vest immediately and are not assets of the District, which has no liability to this plan.

NOTE 7. AFFILIATED ORGANIZATIONS

A. COMPONENT UNITS

The financial reporting entity includes six component units that sell services to the public on a continuing basis. The District is not liable for the debts of the Convention Center, Sports Commission, or Housing Finance Agency, and their bonds, if any, are payable solely from defined revenues and assets of the unit. Through 1996, the Water and Sewer Authority's long-term capital financing was provided by general obligation bonds and notes payable to the federal government issued by the District and repaid from operating revenues of that component unit. Thereafter, bonds issued by the unit are not general obligations of the District and are payable solely from defined revenues and assets of the unit. However, the District may issue new general obligation bonds to refinance prior issuances. Certain tax revenues are dedicated to the Convention Center and Sports Commission.

Condensed balance sheets of the component units at September 30, 1999 follow.

Account		Public Benefit Corporation	Water and Sewer	Convention Center	Sports Commission	Housing Finance	University	Total
Current assets	$	45,178	310,349	615,348	20,537	396,669	53,923	1,442,004
Long term assets		-	60,618	17,089	-	216,437	-	294,144
Fixed assets, net		39,264	1,179,818	226,072	7,331	3,003	72,039	1,527,527
Total assets	$	**84,442**	**1,550,785**	**858,509**	**27,868**	**616,109**	**125,962**	**3,263,675**
Current liabilities	$	67,816	120,014	34,533	3,275	85,052	35,890	346,580
Long-term liabilities		-	752,025	524,460	-	501,432	-	1,777,917
Total liabilities		**67,816**	**872,039**	**558,993**	**3,275**	**586,484**	**35,890**	**2,124,497**
Contributed capital		119,816	397,753	95,361	15,715	-	71,611	700,256
Retained earnings (deficit)		(103,190)	280,993	204,155	8,878	29,625	18,461	438,922
Total equity		**16,626**	**678,746**	**299,516**	**24,593**	**29,625**	**90,072**	**1,139,178**
Total liabilities and equity	$	**84,442**	**1,550,785**	**858,509**	**27,868**	**616,109**	**125,962**	**3,263,675**

Condensed statements of revenues, expenses and changes in retained earnings of the component units for the fiscal year ended September 30, 1999 follow.

Account		Public Benefit Corporation	Water and Sewer	Convention Center	Sports Commission	Housing Finance	University	Total
Operating revenues	$	134,284	242,632	12,170	6,072	11,569	18,626	425,353
Operating expenses:								
Depreciation		5,476	28,227	1,887	947	128	4,395	41,060
Other		153,803	168,259	14,754	5,515	28,226	81,244	451,801
Operating income (loss)		**(24,995)**	**46,146**	**(4,471)**	**(390)**	**(16,785)**	**(67,013)**	**(67,508)**
Nonoperating revenues, net		-	(16,903)	25,265	-	7,917	12,905	29,184
Transfers from primary government		46,842	-	51,145	-	-	50,148	148,135
Net income (loss)		**21,847**	**29,243**	**71,939**	**(390)**	**(8,868)**	**(3,960)**	**109,811**
Depreciation added back		-	4,235	-	-	-	4,395	8,630
Retained earnings (deficit) at October 1		(125,037)	247,515	132,216	9,268	38,493	18,026	320,481
Retained earnings (deficit) at September 30	**$**	**(103,190)**	**280,993**	**204,155**	**8,878**	**29,625**	**18,461**	**438,922**

Condensed statements of cash flows of the component units for the fiscal year ended September 30, 1999 follow.

Account		Public Benefit Corporation	Water and Sewer	Convention Center	Sports Commission	Housing Finance	University	Total
Operating activities	$	(45,952)	124,221	20,758	463	(5,508)	(52,409)	41,573
Capital and related financing activities		(1,044)	(38,017)	(108,981)	(257)	(697)	(344)	(149,340)
Noncapital financing activities		46,996	(7,972)	44,572	-	(9,060)	58,294	132,830
Investing activities		-	13,676	30,715	-	15,232	(101)	59,522
Increase (decrease) in cash		-	**91,908**	**(12,936)**	**206**	**(33)**	**5,440**	**84,585**
Cash and investments at October 1		-	55,748	618,269	19,620	379,750	19,846	1,093,233
Cash and investments at September 30	**$**	-	**147,656**	**605,333**	**19,826**	**379,717**	**25,286**	**1,177,818**

Complete financial statements can be requested for each unit as follows.

Public Benefit Corporation	District of Columbia Health and Hospitals Public Benefit Corporation Executive Director 19th & Massachusetts Avenue, SE Washington, D.C. 20003
Water and Sewer	Water and Sewer Authority General Manager 5000 Overlook Avenue, SW Washington, D.C. 20032
Convention Center	Washington Convention Center Authority General Manager 900 Ninth Street, NW Washington, D.C. 20005
Sports Commission	Sports Commission Authority General Manager 2001 East Capitol Street, SE Washington, D.C. 20003

Housing Finance	D.C. Housing Finance Agency Executive Director 815 Florida Avenue, NW Washington, D.C. 20001
University	University of the District of Columbia President Van Ness Campus 4200 Connecticut Avenue, NW Washington, D.C. 20008

B. RELATED ORGANIZATIONS

Upon its creation in 1995, the District of Columbia Housing Authority assumed the assets and liabilities of the Department of Public and Assisted Housing, which was abolished. The Department of Public and Assisted Housing had recorded outstanding receivables from the U.S. Department of Housing and Urban Development for expenditures that were financed by the General Fund of $3,702 and by the Capital Projects Fund of $15,906. This amount is recorded in the General Fund as an account receivable from the Housing Authority. Collection by the General Fund is contingent upon the Housing Authority collecting from the U.S. Department of Housing and Urban Development. The Housing Authority asserts that this receivable is not valid. Accordingly, the General Fund has fully reserved as uncollectible this receivable from the Housing Authority.

The District of Columbia Redevelopment Land Agency, a separate legal entity but part of the Department of Housing and Community Development, is an instrumentality of the District (D.C. Code 5-801 and 803) with broad powers to promote redevelopment in blighted areas of the District. The agency was authorized to issue debt to finance certain site acquisition, preparation and infrastructure costs for the privately financed MCI Center arena and to receive certain dedicated tax revenues to service the debt (D.C. Law 10-128 et al and Public Law 104-28). Between September and December 1995, the agency drew $36,517 of bank loans, pending the issuance of special tax revenue bonds in the amount of $59,950, which were issued January 11, 1996. The bank loans were repaid on the date of the issuance of the bonds. These loans were not general obligation debts of the District and were payable solely from dedicated tax revenues and certain ground lease payments to the agency associated with the arena. The income derived from both revenue sources had been such that debt payments could be accelerated, with payments being made before the required scheduled redemption period.

C. JOINT VENTURE

The Washington Metropolitan Area Transit Authority was created, effective February 20, 1967, by Interstate Compact by and between Maryland, Virginia and the District of Columbia, pursuant to Public Law 89-774. The Transit Authority was established to plan, construct, finance and operate a public transit system serving the Metropolitan Area Transit Zone, including the District of Columbia; the cities of Alexandria, Falls Church and Fairfax; and the counties of Arlington, Fairfax and Loudon in Virginia and Montgomery and Prince George's in Maryland. The District provides contributions to the Transit Authority to subsidize its operations. In addition, the District pays the Transit Authority for taking public school students to and from schools or school-related activities.

Account		1999	1998
Operating grants	$	121,273	116,415
Debt service grants		10,331	10,331
Capital grants		11,999	40,492
Total	**$**	**143,603**	**167,238**

A condensed balance sheet for the Transit Authority at June 30, 1999 follows.

Account		(Unaudited)
Current assets	$	873,560
Long term assets		1,053,427
Fixed assets, net		6,953,359
Total assets	$	8,880,346
Current liabilities	$	176,705
Long term liabilities		2,015,061
Total liabilities		2,191,766
Contributed capital		6,688,580
Retained earnings (deficit)		-
Total equity		6,688,580
Total liabilities and equity	$	8,880,346

A condensed statement of revenues, expenses, and changes in retained earnings of the Transit Authority at June 30, 1999 follows.

Account		(Unaudited)
Total operating revenue	$	372,111
Operating expenses		675,115
Depreciation and amortization		247,696
Operating loss		(550,700)
Non-operating revenue, net		303,004
Net loss		(247,696)
Depreciation added back		247,696
Retained earnings, beginning of year		-
Retained earnings, end of the year	$	-

The Transit Authority issues separate audited financial statements that can be requested from the Washington Metropolitan Area Transit Authority, General Manager, 600 5th Street, NW, Washington, D.C. 20001.

D. FINANCIAL RESPONSIBILITY AND MANAGEMENT ASSISTANCE AUTHORITY

The Financial Responsibility Authority was created by Public Law 104-8 as a five-member board appointed by the President, having broad powers and independent oversight over the District, as more fully described in Note 1. The Financial Responsibility Authority is included as a blended component unit of the primary government, as required by generally accepted accounting principles (GAAP) with its general fund presented as a special revenue fund and its agency funds and account groups combined with those of the primary government. Separate audited financial statements can be requested from the District of Columbia Financial Responsibility and Management Assistance Authority, Chief Financial Officer, Suite 900, One Thomas Circle, NW, Washington, D.C. 20005.

NOTE 8. INTERGOVERNMENTAL TRANSACTIONS

A. FEDERAL CONTRIBUTION

Prior to 1998, on an annual basis, the federal government would make a payment to the District in lieu of taxes and would pay for costs incurred by the District for special purposes. In 1998 and effective with the passage of the National Capital Revitalization and Self-Government Improvement Act of 1997 (Public Law 105-33), the annual federal payment in lieu of taxes was repealed and replaced by a $190,000 federal contribution for the District's general operations and an authorization for such amounts thereafter "as may be necessary" to reflect restrictions and unusual costs imposed on the District by the federal government. In 1999, Federal appropriations enacted for the District totaled $683,639.

With the enactment of the National Capital Revitalization and Self-Government Improvement Act, the operations of the District's courts and certain public safety functions were transferred to the federal government. Accordingly, the 1999 federal appropriations included the following:

Environmental Study - Lorton Correctional Complex	$7,000
Corrections Trustee Operations	184,800
District Courts	128,000
Offender Supervision, Defender & Court Services Agencies	59,400
Y2K Conversion (Courts)	2,249
Total	$381,449

In addition, $25,000 was provided for financing the District's revitalization efforts and $61,800 was to be used toward the District's Y2K conversion efforts. The remaining $215,390 in Federal appropriations was to be used for metro rail improvements and expansion, infrastructure enhancements, Police (including the U. S. Park Police) and Fire support, the Children's National Medical Center and various historical sites and museums within the District.

A summary of the federal contributions to the District's general operations for the years ended September 30, 1999 and 1998 follows.

Purpose		1999	1998
General purpose	$	141,668	190,000
Management reform initiatives		16,300	8,000
Total	**$**	**157,968**	**198,000**

B. OPERATING GRANTS

The District participates in federal financial assistance programs: formula and project grants; direct payments for specified and unrestricted use; food stamp and other pass-through grants; and direct and guaranteed loans.

A summary of operating grants for the years ended September 30, 1999 and 1998 follows.

Function		1999	1998
Governmental direction and support	$	8,436	5,029
Economic development and regulation		77,504	86,892
Public safety and justice		15,528	9,938
Public education system		79,920	106,272
Human support services		811,265	823,317
Public works		707	1,715
Receiverships		108,921	-
Total general		**1,102,281**	**1,033,163**
Housing finance		27,513	25,634
University		8,994	8,099
Total reporting entity	**$**	**1,138,788**	**1,066,896**

C. CAPITAL GRANTS

Federal capital grants are used for the purchase or construction of fixed assets. Capital grants, except for water and sewer facilities, are recorded as Intergovernmental Revenues in the Capital Projects Fund. Capital grants for water and sewer facilities are recorded as Contributed Capital in the Water and Sewer Unit.

A summary of capital grants for the years ended September 30, 1999 and 1998 follows.

Function		1999	1998
Economic development and regulation	$	-	1
Public education system		3,098	25,640
Human support services		-	1,215
Public works		87,790	84,035
Total capital projects		**90,888**	**110,891**
Management Reform & Capital Improvement		74,039	-
Water and sewer		-	766
Total reporting entity	**$**	**164,927**	**111,657**

D. WATER AND SEWER SERVICES

The District exercises no oversight responsibility over the Washington Aqueduct, which is owned by the Federal government and operated by the U. S. Army Corps of Engineers. The District compensates the Federal government for operating expenses and capital outlays of the Washington Aqueduct. The capital outlays are capitalized and depreciated over 60 years in the Water and Sewer Authority. Payments made to the Federal government were $15,260 and $10,565 for the fiscal years ended September 30, 1999 and 1998, respectively.

NOTE 9. LEASES

A. MASTER LEASE

In June 1998, the District entered into a Master Lease Program with Koch Financial Corporation, Wichita, Kansas. Lease payment obligations are not debt nor are they general obligations of the District, but are payable from appropriations of District agencies participating in the Master Lease Program, subject to annual appropriation. Each schedule under the Master Lease Program sets forth the principal and interest components of each rental payment payable during the lease term. During the year, the interest rate ranged from 1% to 1.5%, with payments being made on a quarterly basis. The acquisition cost of the equipment obtained under this program is at least $25,000 per item. The financing term for such equipment is based on the useful life of the equipment, which must be at least five years but not to exceed ten years.

Equipment procured under this program included such items as fire apparatus (trucks) and other emergency medical services equipment (ambulances), trucks, and cranes used by the Department of Public Works, vehicles used by the Metropolitan Police Department, and other heavy equipment items. The aggregate cost of the equipment acquired and financed under the Master Lease Program during 1999 was $13,272 and debt service payments totaling $1,621 were made to the financing company during the year.

The general fixed assets acquired and the corresponding obligations are reported in the General Fixed Assets Account Group and the General Long-Term Liabilities Account Group respectively, or in the fund acquiring the equipment purchased for a proprietary activity.

B. OPERATING LEASES

Operating leases, those leases not recorded as capital leases as required by FASB Statement No. 13, are not recorded in the balance sheet. These leases contain various renewal options, the effects of which are reflected in the minimum lease payments only if it is considered that the option will be exercised. Certain other operating leases contain escalation clauses and contingent rentals that are not included in the calculation of the future minimum lease payments.

The present value of future minimum lease payments under capital leases (including the Master Lease) and minimum lease payments for all operating leases having noncancelable terms in excess of one year at September 30, 1999 are as follows.

C. SCHEDULES OF FIVE YEAR MINIMUM LEASE PAYMENTS

Operating lease expenditures recorded in governmental funds were $64,699 and $50,488 in 1999 and 1998, respectively. Capital lease expenditures recorded in government funds were $72,673 in 1999 and $50,488 in 1998. Payments made under capital lease agreements by component units were $3,042 and $8,556 for the years ended 1999 and 1998, respectively.

In 1997, the District entered into an agreement for a third party to operate the Correctional Treatment Facility for 20 years. At the end of the lease, the facility will return to the District. In the event of early termination, the District will buy out the balance of the lease payments.

	Primary Government			Component Units		
		Operating Leases			Operating Leases	
Year Ending September 30	Capital Leases	Facilities	Equipment	Capital Leases	Facilities	Equipment
2000	$ 14,093	44,903	1,004	85	1,223	457
2001	13,913	44,347	806	90	1,193	-
2002	13,899	44,918	514	95	1,224	-
2003	13,879	44,815	280	100	1,241	-
2004	13,389	44,485	53	100	1,240	-
Thereafter	106,108	183,901	-	1,855	2,895	-
Minimum lease payments	175,281	407,369	2,657	2,325	9,016	457
Less - imputed interest	43,092			-		
Present value of payments	$ 132,189			2,325		

NOTE 10. CONTINGENT LIABILITIES

A. RISK MANAGEMENT

Claims and Judgments

The District retains all risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. A claim is accrued when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. A liability is recognized also for an estimate of claims that have been incurred but not reported. Assets are not set aside to finance claim payments. Optional health and life insurance coverage are available to employees, with both employee and District premium contributions and without the District retaining risk.

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is unknown, the District is vigorously defending each of them. All amounts in connection with lawsuits where a loss is probable are included within the provision for claims and judgments at September 30, 1999.

The District is a defendant in a lawsuit in which the plaintiff is seeking damages in the amount of $98 million. This case is currently under appeal, and the District's management and legal counsel anticipate an unfavorable outcome in the approximate amount of $1.5 million. A provision for this amount is included in the liability for claims and judgments at September 30, 1999.

A summary of changes in the accrued liability for claims and judgments in the General Fund follows.

Component		1999	1998
Liability at October 1	$	**62,050**	**47,764**
Incurred claims		87,233	35,328
Less - claims payments		19,681	21,042
Liability at September 30	$	**129,602**	**62,050**

The accrued liability is based on estimates of the payments that will be made upon judgment or resolution of the claim. No accrual has been provided for possible but not probable additional claims, which are estimated at $236,959.

Disability Compensation

The District, through the Department of Employment Services (DOES), administers a disability compensation program under Title XXIII of the District of Columbia Comprehensive Merit Personnel Act of 1978 (CMPA.) This program, which covers all District employees hired under the authority of CMPA, provides compensation for lost wages, medical expenses, and other limited rehabilitation expenses to eligible employee and/or their dependents, where a work-related injury or illness results in disability or death. The benefits are funded on a pay-as-you-go basis. The present value at 6.3% of projected disability compensation is accrued in the General Long Term Liabilities Account Group, and a summary of changes follows.

Component		1999	1998
Liability at October 1	$	**294,599**	**153,584**
Benefits incurred		62,104	174,056
Less - benefit payments		30,043	33,041
Adjustments to insured events of prior years		(128,375)	-
Liability at September 30	$	**198,285**	**294,599**

The reserve amount substantially decreased in fiscal year 1999 due to favorable disability claims experience, fewer claimants and changes in key actuarial assumptions. The number of claimants in the Disability Compensation Program decreased by approximately 300, resulting in lower medical and compensation payments. Also, fiscal year 1999 actuarial assumptions were less conservative.

Rate Swap Agreements

The District has entered into rate swap agreements for two variable rate bond issues (1991B and 1992A), of which $300,600 and $403,400 are outstanding at September 30, 1999 and 1998, respectively. The agreements are for the term of the related outstanding bonds. Based on the swap agreements, the District owes interest to the counterparties to the swap calculated at a fixed rate of 5.80% and 6.02%. In return, the counterparties owe the District interest based on a variable rate. Only the net difference in interest payments is actually exchanged between the counterparties. The District continues to pay interest to the bondholders at the variable rate as provided by the bonds, and the net interest payment under the swap agreements adjusts the net interest to an approximate fixed rate. The District will be exposed to variable rates on the bonds if the counterparty defaults or if a swap agreement is terminated. Terminating a swap agreement may result in the District making or receiving a termination payment related to market rates at that time.

Debt Service Deposit Agreements

The District entered into debt service deposit agreements effective through 2014 that exchanged future cash flows of certain special tax fund escrow accounts for a fixed amount received by the District upon entering into the agreements, thus increasing the predictability of cash flows from the earnings on escrow account investments. Upon early termination of an agreement and depending upon the then current interest rates, any termination amount owed by the District may substantially exceed the amount received upon entering into the agreement.

B. FEDERALLY ASSISTED PROGRAMS

The District participates in a number of federally assisted grant programs as described in Note 8. These grants are subject to financial and compliance audits by the grantors or their representatives. The audits of these programs have not yet been conducted for the year ended September 30, 1999 and, for certain programs, for prior years. Accordingly, the District's compliance with applicable grant requirements will be established at some future date. An accrual of $115,809 in the General Fund has been provided which estimates the probable cumulative expenditures that may be disallowed by the granting agencies based on prior experience.